

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 NSAE-00 NSCE-00 SSO-00

USIE-00 INRE-00 PM-04 H-02 INR-07 L-03 NSC-05 PA-01

PRS-01 SP-02 SS-15 MC-02 ACDA-05 JUSE-00 AID-05

COME-00 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03 CIEP-01

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FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC IMMEDIATE 9128

C O N F I D E N T I A L OTTAWA 1053

E.O. 11652: GDS

TAGS: MILI, MARR, EAIR, NATO, CA

SUBJ: LOCKHEED LRPA

REF: OTTAWA 1041

1. U.S. TREASURY DEPARTMENT OFFICIALS ABRECHT (GENERAL COUNSEL) AND VINICK CAME TO OTTAWA SATURDAY. MARCH 13 AND MET FOR TWO HOURS WITH DEPUTY MINISTER OF NATIONAL DEFENCE NIXON AND TEAM OF SENIOR OFFICIALS FROM DND AND OTHER GOC AGENCIES TO DISCUSS VARIOUS ASPECTS OF LRPA PROBLEM INCLUDING "BRIDGE" FINANCING, LOCKHEED'S LONG-RUN VIABILITY, GOC RIGHTS IN EVENT OF LOCKHEED BANKRUPTCY, AND EFFECT OF PROSPECTIVE FMS LEGISLATION WORKING ITS WAY THROUGH CONGRESS. SEE PARAS 8 AND 9 BELOW FOR ACTION RECOMMENDATION AND REQUEST.

2. FIRST ITEM ON GOC AGENDA AND OBVIOUSLY ITEM OF PRINCIPAL CONCERN TO GOC WAS BRIDGE FINANCING. NIXON SAID GOC FOCUSING ON TWO POSSIBILITIES: (A) LOAN TO LOCKHEED BY PRIVATE BANK GUARANTEED BY GOC OR (B) SALE TO PRIVATE BANK OF LOCKHEED'S RIGHTS TO PAYMENT FROM
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GOC UNDER CONTRACT. IN LATTER CASE BANK WOULD ADVANCE MONEY TO LOCKHEED ON BASIS GOC CERTIFICATION THAT WORK HAD BEEN PERFORMED AND COLLECT LATER FROM GOC IN ACCORDANCE WITH TERMS OF CONTRACT. NIXON SAID GOC HAD RECEIVED IMPRESSION THAT U.S. LEGISLATION GOVERNING EMERGENCY LOAN TO LOCKHEED MIGHT PROHIBIT SUCH ARRANGEMENTS AND ASKED FOR ADVICE. TREASURY OFFICIALS SAID NOTHING IN LEGISLATION ITSELF WOULD PRECLUDE SUCH ARRANGEMENTS BUT THEY WOULD REQUIRE APPROVAL OF RLGB AND COMMERCIAL BANK CONSORTIUM WOULD HAVE TO AGREE TO (A) AMEND ITS PLEDGE AND SECURITY AGREEMENT (WHICH WOULD REQUIRE APPROVAL OF ALL MEMBERS OF CONSORTIUM) OR (B) CONSENT TO DEVIATION FROM AGREEMENT (WHICH WOULD REQUIRE APPROVAL OF MEMBERS HOLDING TWO-THIRDS OF OUTSTANDING COMMITMENT). THEY EXPRESSED OPINION THAT, ONCE GOC DECIDES THE COURSE IT WILL TAKE AND LOCKHEED PRESENTS A PROPOSAL TO ELGB AND BANKING CONSORTIUM, IT SHOULD BE POSSIBLE TO GET DECISION QUITE RAPIDLY. THEY COULD NOT PREDICT WHAT DECISIONS WOULD BE BUT SUGGESTED THAT THIS CONTRACT WOULD BE IMPORTANT TO LOCKHEED'S FUTURE AND IF ARRANGEMENTS MADE GOOD BUSINESS SENSE IT WOULD LIKELY BE SEEN TO BE IN CREDITORS' INTEREST.

3. RE LOCKHEED'S LONG-RUN VIABILITY, TREASURY OFFICIALS SAID THEY COULD NOT GO BEYOND WHAT HAD BEEN SAID TO GOC DURING FEBRUARY 24 MEETING IN WASHINGTON AND IN "NON-PAPER". ELGB HAS NOT YET COMPLETED IN-DEPTH STUDY OF LOCKHEED'S CURRENT SITUATION AND IT LIKELY TO BE AT LEAST 2-3 WEEKS BEFORE EVEN WORKING PAPERS ARE AVAILABLE. THEY OFFERED PERSONAL OPINIONS THAT NOTHING IN NEW STUDY WOULD CHANGE BASIC OUTLOOK AND THAT EVEN IN MOST PESSIMISTIC CASE LOCKHEED WOULD REMAIN A PRODUCING ENTITY.

4. IN CONTEXT OF "DEFINING ALL UNKNOWNNS" IN ORDER TO BE ABLE TO RESPOND TO MINISTERIAL QUESTIONS, NIXON SAID THAT ACCORDING TO CONTRACT TERMS TITLE TO WORK PERFORMED PASSED TO GOC AS WORK PROGRESSED. HE ASKED WHETHER, IN EVENT OF LOCKHEED BANKRUPTCY, GOC WOULD HAVE ANY DIFFICULTY ASSERTING THIS TITLE. TREASURY OFFICIALS SAID THAT PROBLEM APPEARED TO BE CONFIDENTIAL

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ONE OF IDENTIFYING AND SEGREGATING ASSETS BUT IT DIFFICULT FOR THEM TO BE PRECISE ABOUT WHAT MIGHT HAPPEN IF LOCKHEED SHOULD FALL UNDER JURISDICTION OF COURT. THEY SUGGESTED GOC MIGHT BEST DISCUSS THIS QUESTION IN WASHINGTON WITH JUSTICE DEPARTMENT BANKRUPTCY EXPERTS. VINICK SAID HE WOULD PROVIDE MCKINNEY OF CANADIAN EMBASSY WITH NAME OF APPROPRIATE

CONTACT ON MONDAY, MARCH 15.

5. AMBASSADOR ENDERS OUTLINED PROSPECTS FOR FMS LEGISLATION PER STATE 56632. IN RESPONSE TO GOC QUESTIONS RE POSSIBILITY OF AMENDMENTS TO EXEMPT NATO AND/OR CANADA FROM FMS PROVISIONS, HE SAID IT WOULD BE PRUDENT FOR GOC TO BUTTON UP LOCKHEED CONTRACT BEFORE APRIL 1 AT LATEST.

6. NIXON POINTED OUT THAT LOCKHEED'S LETTER OF OFFER HAD BEEN ACCEPTED AND WORK IS ALREADY IN PROGRESS. HE SUGGESTED THAT THIS COULD BE CONSIDERED A CONTRACTUAL ARRANGEMENT EVEN THOUGH FINAL DOCUMENTS NOT SIGNED AND ASKED WHETHER LRPA CONTRACT WOULD THEREFORE NOT BE SUBJECT TO NEW LEGISLATION. U.S. OFFICIALS SAID THEY COULD NOT ANSWER THE QUESTION. AMBASSADOR ENDERS SAID HE WOULD TRY TO GET A READING FROM WASHINGTON BUT REITERATED THAT THE GOC WOULD BE PRUDENT TO PROCEED ON THE ASSUMPTION THAT THE LEGISLATION WOULD BE IN FORCE NO LATER THAN APRIL 1 AND THAT IT WOULD APPLY TO THE LRPA DEAL UNLESS FORMAL CONTRACT SIGNED BEFORE EFFECTIVE DATE.

7. NIXON CLOSED MEETING WITH EXPRESSION OF WARM APPRECIATION FOR TREASURY OFFICIALS' VISIT TO OTTAWA ON SUCH SHORT NOTICE.

8. COMMENT: I BELIEVE GOC IS GENERALLY SATISFIED REGARDING LOCKHEED'S LONG-RUN VIABILITY, ALTHOUGH IT MAY WANT SOME MINOR VARIATION IN NON-PAPER. FOCUS IS ON FRONT-END FINANCING PROBLEM WHICH, GIVEN GOC'S ABILITY TO GUARANTEE PAYMENTS UNDER EITHER OF OPTIONS MENTIONED IN PARA 2 ABOVE, APPEARS SOLUBLE IF THERE IS SUFFICIENT TIME TO FINALIZE ARRANGEMENTS BEFORE U.S. CONFIDENTIAL

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FMS LEGISLATION COMES INTO FORCE. GOC MUST OBTAIN CABINET'S APPROVAL TO PROCEED AND THEN LOCKHEED MUST NEGOTIATE WITH ELGB AND BANKING CONSORTIUM. UNDER BEST CIRCUMSTANCES, IT WILL BE DIFFICULT TO ACCOMPLISH ALL OF THIS BY APRIL 1. IN ABSENCE OF NEW EXCEPTIONS PROVISION IN LEGISLATION WHICH WOULD COVER CANADIAN CASE, ACTION TO DELAY OR DEFER FINAL CONGRESSIONAL ACTION FOR A FEW DAYS IN ORDER TO SET DEADLINE FOR PRESIDENTIAL SIGNATURE OF LEGISLATION BACK TO, SAY, APRIL 15, COULD BE CRITICAL.

9. STATE 60921 RECEIVED AFTER MEETING AT DND. PARA 1B STATES THAT CONCLUSIONS OF "LETTER OF INTENT" PRIOR TO EFFECTIVE DATE OF LEGISLATION WILL PERMIT SALE TO PROCEED

ON COMMERCIAL BASIS. I WOULD APPRECIATE RECEIVING LAWYER'S
DEFINITION OF "LETTER OF INTENT" IN THIS CONTEXT WITH
VIEW TO ANSWERING NIXON'S QUESTION IN PARA 6 ABOVE AND
SUGGESTING TO GOC WHAT IT MUST DO TO MEET REQUIREMENTS.

10. I WISH TO ADD MY THANKS TO ALBRECHT AND VINICK FOR
THEIR QUICK RESPONSE TO MY SUGGESTION TO VISIT OTTAWA
AND FOR THE ABLE PROFESSIONAL WAY IN WHICH THEY
CONTRIBUTED TO THE ONGOING DIALOGUE WITH THE GOC
ON THE LOCKHEED MATTER.
ENDERS

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